



October 2003

The Impact of Forward Funding on the MBTA

The MBTA was recreated in 2000 as an independent authority with a dedicated revenue stream and the ability to control operations, including raising fares. This legislation, called "Forward Funding", also mandated the MBTA to build reserves, control debt growth, and increase flexibility in its Capital Program. During the implementation phase, a Blue Ribbon Committee was established to provide the MBTA Board of Directors with an independent evaluation of the Authority's financial plan and the impact on operating costs and revenues under the new fiscal reforms. The committee was made up of a diverse group of public servants charged with identifying the major challenges and opportunities available to the MBTA consistent with the new financial structure and the mandate to operate as an independent, self-sustaining, public transit agency. Finally, the legislation removed any approval power that the Advisory Board had over fare increases, giving it review responsibility only.

Revenue

In addition to its own-source revenue, the Authority receives dedicated revenues in the form of .20 of each dollar of the state sales tax (excluding meals) and local assessments from the 175 communities that make up the MBTA district. In accordance with the mandates of the legislation, the total assessment revenue that the T receives annually from its member communities actually has decreased from \$144m in FY2001 to the current FY2004 level of \$141m. This decrease will continue until FY2006 when the base level of \$136m is reached. FY2007 begins growth of the total assessment amount by 2.5% or the previous year's inflation rate – whichever is lesser. The Authority

is also guaranteed an annual base amount of the sales tax revenue number, adjusted annually thereafter for inflation up to a maximum of 3%.

Expense

With the funds outlined above, the MBTA is expected to provide transit services to 1.1 million riders daily. The Authority will spend \$828m to operate the system in FY2004.

In addition to the mandates outlined above, the Authority was also given responsibility for the over \$4 billion in outstanding debt that the Commonwealth had incurred while funding the state's share of transit projects, while being told less formally that the transit commitments for the Central Artery Project would be their responsibility. The legislation allowed for the possibility that the Authority could return to the legislature for assistance in funding these projects as it is the Commonwealth, and not the MBTA, who is the signatory on the mitigation agreement. However, recent comments from state officials indicate that the State has neither the appetite nor the ability to fund these projects.

A recent analysis of the MBTA's capital program by the Massachusetts Taxpayers Foundation clearly states that the MBTA is overextended in terms of capital spending and will have difficulty funding the maintenance projects they must implement, and that expansion and enhancement projects are unaffordable. Yet, advocates for the Central Artery/Tunnel Project transit commitments have been quoted as saying that the commitments are enforceable and that money should not be a barrier to implementation. The one common denominator in all of these discussions is that the MBTA does not have sufficient funds to implement its capital program with expansion of the

system. It appears unlikely that funds will be coming from another source to implement the capital program any time soon. The Authority is on its own in terms of funding its capital needs. The question is: can they afford these capital projects and fund the increases in operating costs without a fare increase? The answer is clear – they cannot. The Authority, even with a fare increase, cannot afford the capital program's list of expansion projects and mitigation projects. Another way will have to be found to meet these goals.

Finally, based on the Advisory Board's review of the FY2004 Budget and further review done during this process, it is clear that the \$18m shortfall that the Authority currently bears will only continue to grow in each succeeding year. Although the Authority has taken every opportunity to pay-off high coupon debt in an effort to reduce the total debt load, it continues to carry a huge debt burden and has a Capital Program that must be funded as well. All of these commitments must be met with no immediate aid in sight from outside sources.

Overview of the Fare Increase Proposal

Almost ten months before the proposed effective date, the MBTA, as part of the revenue discussion for the FY2004 budget, announced their intention to increase fares throughout the system. Included in their budget request to the Advisory Board was an assumption of \$25m in additional fare revenue in FY2004 based on the system-wide increase. The fare increase was necessitated by the following: a decline in fare revenue, the mandated decline in total assessments on MBTA communities, and the lack of growth in the MBTA dedicated revenue stream of 20% of the state sales tax. The MBTA's long-range finance plan had called for reasonably steady growth in the sales tax, no decline in ridership, and small increases in fares on a schedule of every few years.

This decline had reached the point that the Authority felt that the only viable choices were to increase revenues via a fare increase or curtail service. The Authority listed the following items as evidence that they had actively pursued operational efficiencies before the request to increase fares:

Wages: The Authority recently completed patterned bargaining negotiations with the MBTA unions. The agreement called for no increase in the first year (retroactive), two percent in the second (this current fiscal year), three percent next fiscal year and four percent the year after.

Headcount: There are two reasons why this increase did not impact the wage line item this year. First, because the Authority reduced the total workforce and second, because the Advisory Board reduced the wages line item further during our FY2004 budget review. Even at the reduced staffing levels, the total wage increase (and associated fringe benefits costs) will be significant next year.

Commuter Rail: The execution of the new five-year Commuter Rail maintenance and operation contract with Massachusetts Bay Commuter Railroad (MBCR) will save the Authority approximately \$59 million dollars over its term in comparison to the former contract with Amtrak.

Like most transportation agencies, the MBTA's operating budget is driven by its personnel costs. Wages, Payroll Taxes and Fringe Benefits make up 55% of the FY2004 operating budget. The second largest expense, Commuter Rail, represents 24% of the operating budget. The MBTA is a unionized organization in the second year of its labor agreement. Management felt that they had gotten the agreement they needed to get this time around, given the state of their dedicated revenues. Wages for the vast majority of MBTA employees increased 2% by contract in FY2004, 3% in FY2005 and 4% in FY2006. Healthcare costs were estimated to increase at about 6% and have, like every other industry, seen increases of 12%. The only way to address these costs is to reduce the operating system's workforce, and that move flies in the face of the majority of the public comments. Reducing the workforce would reduce the Authority's ability to add service, increase frequency and address rolling stock maintenance issues. Unless another significant source of operating revenue is found, there is no way to make major improvements to service without additional fare box revenue. In fact it will be difficult, if not impossible, to run the system at existing service lev-

els without additional revenue.

The Authority approached FY2004 looking for a fare increase but also intending to reduce their non-operating workforce by up to 100 positions. Other savings were realized when it was agreed that Phase II of the Silver Line, South Station to the Convention Center, would not be ready to operate in FY2004. In addition, the Authority outlined a series of service cuts that could get them through the rest of FY2004 with the revenues they currently project. The problem in FY2005 is compounded under this scenario.

What does it mean if it passes?

Attached is the proposed schedule of fares. We have been told that MBTA staff will recommend this proposal to the Board of Directors at the November meeting with some modifications, including a reduction in bus fares from the original recommendation of \$1.00 to \$.90. There has been discussion, but no decision, on a change to the Commuter Rail fare schedule. The revenue estimates for the original proposal are \$25 million in FY2004 and \$50 million in FY2005.

What does it mean if it doesn't pass?

The Authority, as part of its presentation of the FY2004 budget, included the specific service cuts that the General Manager would recommend to the Board of Directors if the Board chose not to implement the fare increase. Those changes in service included the elimination of the Night Owl service, the elimination of the RIDE service to communities that are not specifically included under federal law, and significant reductions of off peak service for commuter rail and bus. These changes in service would only get the Authority through FY2004. It is the belief of the Advisory Board that continued significant cuts would have to be made again next year to offset the increased costs in the FY2005 budget.

Public Comments from the MBTA Public Hearing Process

The consistent message of the fare increase hearings

was that bus and commuter rail service need considerable improvement. Overall, customers stated that they wanted frequent service on clean, functional and new rolling stock. Bus customers railed against the quality of service with a constant litany of dirty buses, late arrivals and rude operators. They spoke of buses driving by them at bus stops during rush hour and in inclement weather. They spoke of dirty buses with non-functional air conditioning or heat. Those riders whose commute involved more than one bus spoke of uncoordinated bus schedules - connecting buses would arrive in time to watch the bus for the next leg of the journey pull out.

Commuter rail passengers spoke of overcrowded trains and very few available trips. They complained that the trains were dirty and that fares were not collected. They spoke of delays with no information - merely waiting on a platform or sitting on an unmoving train with no idea when they would get to their destination. Commuters and community officials testified that they need additional trips during rush hour; reverse commuting trips to get people from the inner core to jobs in outer communities; and additional off-peak trips so that commuters could stay in the city later in the evening or get home in the middle of the day (for those who work flex time or non-traditional hours). Customers farthest away from the central core advocated for express trains to Boston. Commuter Rail customers also want the Authority to construct additional parking lots.

Transit advocates want an increase in the total number of buses to increase service frequency; some advocates are pushing for the establishment of a light rail system on Washington Street to replace the MBTA's bus/rapid transit system. Advocates from the North Shore want to see the expansion of the Blue Line past its current end point to improve access from the North Shore. Many of the people and groups who were advocating for expansion projects in the Program for Mass Transportation (PMT) process came to advocate for their expansions again. One thread was that the Authority should invest in their project because the additional ridership generated would make up for the current shortfall. All of the Central Artery/ Tunnel mitigation requirements remain in place with the big-ticket items: Greenbush, Phase III of the Silver Line, the Red Line/Blue

Line connector, Green Line to Medford Hillside and the implementation and future phases of the Urban Ring. These are on top of the service enhancement projects like the Fairmont Branch and the billions of dollars required to repair and maintain the existing system.

No matter which mode people were discussing, there were statements to the effect that if certain improvements were made there would be no need for a fare increase because the additional ridership these improvements would generate would offset the current decline in revenue. Adding additional buses on crowded routes, additional commuter rail trains on faster headways, improving the signal system on the Orange Line and other improvements would add capacity to the system and make for a more comfortable and attractive commute. These improvements cannot be done immediately and the revenue shortfall is this year's and next year's problem. Additionally, while you can add capacity and in theory add ridership, you increase the pressure on the operating budget because you need staff to operate the additional service and you add tremendous pressure to the capital budget to pay for these improvements. The system is currently operating above capacity during rush hour.

Reasonable people may disagree, but one interpretation of the public comments is that what people want more than an inexpensive system is a clean and efficient system. People came to the fare increase hearings because they saw an opportunity to let the MBTA know the problems with the service and to vent their anger at the quality of the service they received. More than one person stated that they would be willing to pay more if they got more, but that the MBTA's current level of service infuriated them enough to come out to an evening meeting and say so. In the face of that reaction from its customer base, the Authority should not reduce service to avoid a fare increase. The MBTA should do what the Blue Ribbon Committee recommended and commit to using a significant portion of the fare increase to address the issues raised time and time again at all of the hearings.

Conclusion

The MBTA has followed the requirements of the law and their own internal policies regarding the fare increase procedure. Those requirements are outlined in Chapter 161A Section 5(d):

Section 5(d) No proposal for a systemwide change in fares or decrease in systemwide service of 10 per cent or more shall be effective until said proposal shall first have been the subject of one or more public hearings and shall have been reviewed by the advisory board and, for a systemwide increase in fares of 10% or more, the MBTA board has made findings on the environmental impact of such increase in fares and, for a systemwide decrease in service of 10% or more, the decrease shall be the subject of an environmental notification form initiating review pursuant to sections 61 and 62H, inclusive, of chapter 30. Any systemwide increase in fares of 10 per cent or more shall conform to the fare policy established pursuant to paragraph (r). The authority shall increase fares only to provide needed revenue and shall not increase fares solely for the purpose of funding the stabilization fund established pursuant to section 19

Many transit advocates and coalitions were very upset with the MBTA regarding the amendment that removed legislation regarding fare increases in Chapter 161A, Section 11, Line 13:

In no event shall said authority raise fares if the annual ridership on the system has declined by more than four per cent in the previous 12 months.

There was much discussion about whether the ridership loss experienced by the Authority fit this description, thereby prohibiting them from raising fares. However, had the section remained, and the ridership loss experienced deemed in accordance with it, another scenario would have arisen. The Authority, having no ability to propose a fare increase, would have had no choice but to cut service. In the absence of a fare increase proposal, there would have been no mandatory public comment period, merely informational sessions outlining the service revisions. These revisions would have ranged from eliminations (eg. the Night Owl), to program cuts (eg. The RIDE), and scheduling changes (longer headways between arrivals, reductions in Commuter Rail weekend service) and would

only get the Authority through the end of FY2004. In the out years, these service reductions could possibly extend to the Weekly Pass Program and the Bus-to-Bus Transfer Program as well.

Members of the Advisory Board noted that the state could do more to help the Authority, even if it is unwilling to provide operating or capital funds. Specifically, the Legislature can pass bills to allow the MBTA to use "proof of payment" in certain circumstances. They can loosen the restrictions on contracting out some MBTA activities. They can address the long-standing and critical need for a cap on liability for the MBTA. They can help the Authority address the large costs of health care for MBTA retirees. Finally, the Authority needs the full scope of management rights if they are to address the critical problem of absenteeism.

The Advisory Board acknowledges that there is a need for the additional revenues and without those revenues, the ability of the Authority to deliver services at existing levels will be compromised. Public comments regarding the fare increase have been overwhelmingly negative, but those comments have focused on issues that are largely within the Authority's power to improve. Transit advocates have demanded innovative fare structure and additional service. The Authority should work with these groups, and the Advisory Board, to implement a more flexible fare structure as soon as the technology that would allow this flexibility is installed.

Finally, it is critical to remember that transit is a public good. We need transit to move workers to their jobs, shoppers to stores, patients to doctors. We need transit to reduce traffic congestion, improve the environment, and provide an option to those who do not or cannot own a car. A strong public transit system benefits the entire MBTA district and all of the people living in it, whether they ride the system or not. It is an environmental boon and a powerful economic engine for the Massachusetts economy. It has a positive impact on the communities and neighborhoods it serves in terms of mobility, housing value, and quality of life for all of the people in the service area. Government on the federal level seems to have forgotten the impact of mass transit and has walked away from a significant commitment to funding its needs. The Common-

wealth dedicates 20% of sales tax revenue to the operation of the MBTA and probably cannot do more in this lean economy. However, we cannot afford to reduce the level of service currently provided because too many people are absolutely dependent on it.

On October 30, 2003 the Advisory Board met to consider the Fare Increase Report. The Board voted unanimously to receive and transmit the Report to the Board of Directors with the following Addendum:

Consistent with the revenue requirements of the system we ask that the MBTA consider ways of assuring those unable to pay be protected.

Specifically:

- That an increase in fares for seniors, students and the disabled occur only if the cost of the pass program can be reduced.
- That the MBTA examine the issue of transfers between the various transportation modes throughout the system especially in conjunction with the use of Automatic Fare Collection
- That the MBTA examine reassigning busses to high ridership routes
- That the MBTA reconsider the extent of the commuter boat fare increase
- That the MBTA also use a portion of the fare increase to improve service and that the MBTA report back to the Advisory Board on those proposed improvements prior to January 1, 2004

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Addendum 1

Comments offered at the MBTA Advisory Board Public Meeting

October 20, 2003

State Transportation Building

10 Park Plaza

Boston, MA

The MBTA Advisory Board, represented by staff with a number of Advisory Board members present, held a public session to hear the public's concerns regarding the proposed fare increase. Below are the comments offered at that meeting:

Karen Wepsic –noted that the CA/T consent order mandated a certain increase in bus ridership and that the fare increase will deter bus riders. She also offered changes to the proposed monthly fare structure. She opposes the fare increase.

Karen Rumelt-The percentage increase in MBTA fares is greater than the percentage increase of her latest raise. She finds the service poor and complains that the MBTA does a poor job of communicating delays and emergencies. She opposes the fare increase.

Nicole Jabaily– Representing MassPirg and the On The Move Coalition. Stated that current service levels do not justify a fare increase, that there continues to be non-collection of fares and fare evasion, especially on commuter rail and that the process for raising fares has serious problems. She asked that the Advisory Board support one of the alternate fare structures being proposed and oppose the fare increase.

Jean Leventhall– Bus service in Newton is too infrequent and ends too early in the evening. The MBTA focuses too much on the rush hour commuters and does not take other riders into account. Card readers on buses are not working or are ignored, so the MBTA does not have an accurate count of riders. She opposes the fare increase.

Tom Lenthall– The MBTA is providing services that it should not, specifically the homeless shuttle to Long Island in Boston Harbor and certain service for schoolchildren. CNG buses raise the MBTA's operating costs excessively. Commuter rail customers pay a lower per-mile cost than bus and subway riders; the Commuter rail system should be a separate entity.

Althea Garrison– The MBTA needs improved efficiency and service in order to increase ridership. In particular bus routes 15, 16, and 17 are very bad. She opposes the fare increase.

Leslie Dennis– service needs to be expanded, especially the Green Line beyond Lechmere. The state missed an opportunity when Orange line service was not provided to Assembly Square in Somerville.

Shirley Kressel– The MBTA should study the following: cost per mile as compared to other systems; investigate theft in the counting rooms, develop a Smart Growth strategy for real estate development; address revenue loss due to fare evasion, stop building parking lots. Further, the MBTA's focus on bus is misguided, the focus should be on extending rail. The state should assume the MBTA debt and provide a larger revenue stream. She opposes the fare increase.

Beth Abraham– The fare increase is unaffordable. Fare evasion needs to be addressed. Bus service is unreliable. Rail should not be restored to Arborway. She opposes the fare increase.

Steve Murphy, Boston City Council– Opposes the fare increase. The MBTA should consider a zone-fare system similar to Washington D.C. because the lack of such a system means that city riders pay a disproportionate share compared to commuters coming in from outside the urban area.

Addendum 2

Written Comments

The MBTA Advisory Board received the following comments in writing:

State Representative Frank Hynes wrote to raise several questions regarding the costs borne by customers of the commuter boat from Hingham to Boston. The Representative stated his belief that the cost of this service is very nearly covered by the fares charged. Further, the Authority recently instituted a \$2.00 fee for parking and the proposed increase cost of the commute combined with the new parking fee represents a 60% increase over recent fares. Representative Hynes requested that Advisory Board staff look into the current status of the commuter boat contract, the total increase in commuting costs to South Shore commuters and to what degree the successful commuter boat service subsidizes other MBTA services. Representative Hynes asked that his statements be made a part of the record.

State Representative Mary E. Grant wrote to express her concern regarding the proposed increase in commuter rail fares and the possibility of increased parking fees. The Representative feels that such a large increase in commuting costs would discourage the use of mass transit. Representative Grant expressed her concern that fare collection was not effective enough. A combination of better fare collection and increased ridership due to more frequent service would increase MBTA revenues.

State Representative Kay Kahn wrote to oppose the fare increase for two main reasons; first, that the fare increase would discourage the use of mass transit, thereby increasing congestion and pollution and that the drop in ridership would further depress system revenues from fares and; second, that the increase would place too high a burden on transit dependent riders.

State Representative Susan W. Pope wrote representing the Metro West Legislative Caucus to express their opposition to the proposed fare increase. She wrote of the additional burden on suburban commuters in an area with few public transit options. The Representative also stated her opposition to the suggestion that in the absence of a fare increase that the RIDE service for the elderly and disabled be discontinued to communities not currently mandated by federal law. Representative Pope offered to facilitate an additional public hearing on these issues in the Metro West area.

